

**NORTH CAROLINA ACCOUNTANCY STATUTE EXCERPTS  
NORTH CAROLINA ADMINISTRATIVE CODE EXCERPTS**

**PROFESSIONAL ETHICS AND CONDUCT**

**FEBRUARY 2006**

**ORAL REQUESTS FOR OPINIONS AND INTERPRETATIONS**

Oral requests to Board or staff members for opinions and interpretations of these rules are discouraged. Whenever given, they are non-binding and applicants or licensees who thereafter act in reliance, do so at their own risk.

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## **NORTH CAROLINA ACCOUNTANCY STATUTES**

### **CHAPTER 93 - CERTIFIED PUBLIC ACCOUNTANTS**

#### **§ 93-12. Board of Certified Public Accountant Examiners.**

(9) Adoption of Rules of Professional Conduct; Disciplinary Action. – The Board shall have the power to adopt rules of professional ethics and conduct to be observed by certified public accountants in this State. The Board shall have the power to revoke, either permanently or for a specified period, any certificate issued under the provisions of this Chapter to a certified public accountant or to censure the holder of any such certificate or to assess a civil penalty not to exceed one thousand dollars (\$1,000) for any one or combination of the following causes:

- a. Conviction of a felony under the laws of the United States or of any state of the United States.
- b. Conviction of any crime, an essential element of which is dishonesty, deceit or fraud.
- c. Fraud or deceit in obtaining a certificate as a certified public accountant.
- d. Dishonesty, fraud or gross negligence in the public practice of accountancy.
- e. Violation of any rule of professional ethics and professional conduct adopted by the Board.

Any disciplinary action taken shall be in accordance with the provisions of Chapter 150B of the General Statutes. The clear proceeds of any civil penalty assessed under this section shall be remitted to the Civil Penalty and Forfeiture Fund in accordance with G.S. 115C-457.2.

### **SUBCHAPTER 08N - PROFESSIONAL ETHICS AND CONDUCT**

#### **SECTION .0100 - SCOPE AND APPLICABILITY**

##### **21 NCAC 08N .0101 SCOPE OF THESE RULES**

(a) The rules in this Subchapter are the rules of professional ethics and conduct which G.S. 93-12(9) authorizes the Board to adopt. As such, they complement the other statutory causes for discipline set out in G.S. 93-12(9)(a) through (d) and other provisions of G.S. 93, 55B, 57C, and 59-84. These Rules cover a broad range of behavior and do not enumerate every possible unethical act.

(b) In the interpretation and enforcement of these Rules, the Board will give consideration, but not necessarily dispositive weight, to relevant interpretations, rulings and opinions issued by the boards of other jurisdictions and by appropriately authorized ethics committees of professional organizations.

##### **21 NCAC 08N .0102 APPLICABILITY AND ORGANIZATION OF RULES**

These Rules are generally applicable to all certificate holders. Rules in Section .0200 of this Subchapter relate to CPAs whether or not employed in the public practice of accountancy. Rules in Section .0300 of this Subchapter pertain to CPAs using the CPA title in connection with providing products or services to clients. Rules in Section .0400 of this Subchapter pertain to CPAs whenever engaged in attest services.

##### **21 NCAC 08N .0103 RESPONSIBILITY FOR COMPLIANCE BY OTHERS**

A CPA and CPA firm shall be responsible for assuring compliance with the rules in this Subchapter by anyone who is the CPA's partner, fellow shareholder, member, officer, director, licensed employee, unlicensed employee or agent or unlicensed principal, or by anyone whom the CPA supervises. A CPA or CPA firm shall not permit others (including affiliated entities) to carry out on the CPA's behalf, with or without compensation, acts which if carried out by the CPA would be a violation of these Rules.

#### **SECTION .0200 - RULES APPLICABLE TO ALL CPAs**

##### **21 NCAC 08N .0201 INTEGRITY**

The reliance of the public and the business community on sound financial reporting and advice on business affairs imposes on the accounting profession an obligation to maintain high standards of technical competence, morality, and integrity. To this end, a CPA shall at all times maintain independence of thought and action, hold the affairs of clients in strict confidence, strive continuously to improve professional skills, observe generally accepted

accounting principles and standards, promote sound and informative financial reporting, uphold the dignity and honor of the accounting profession, and maintain high standards of personal conduct.

#### **21 NCAC 08N .0202      DECEPTIVE CONDUCT PROHIBITED**

(a) Deception Defined. A CPA shall not engage in deceptive conduct. Deception includes fraud or misrepresentation and representations or omissions which a CPA either knows or should know have a capacity or tendency to deceive. Deceptive conduct is prohibited whether or not anyone has been actually deceived.

(b) Prohibited Deception. Prohibited conduct under this Section includes but is not limited to deception in:

- (1) obtaining or maintaining employment;
- (2) obtaining or keeping clients;
- (3) obtaining or maintaining certification, retired status, or exemption from peer review;
- (4) reporting CPE credits;
- (5) certifying the character or experience of exam or certificate applicants;
- (6) implying abilities not supported by education, professional attainments, or licensing recognition;
- (7) asserting that services or products sold in connection with use of the CPA title are of a particular quality or standard when they are not;
- (8) creating false or unjustified expectations of favorable results;
- (9) using or permitting another to use the CPA title in a form of business not permitted by the accountancy laws or rules;
- (10) permitting anyone not certified in this state (including one licensed in another state) to unlawfully use the CPA title in this state or to unlawfully operate as a CPA firm in this state; or
- (11) falsifying a review, report, or any required program or checklist of any peer review program.

#### **21 NCAC 08N .0203      DISCREDITABLE CONDUCT PROHIBITED**

(a) Discreditable Conduct. A CPA shall not engage in conduct discreditable to the accounting profession.

(b) Prohibited Discreditable Conduct. Discreditable conduct includes but is not limited to:

- (1) acts that reflect adversely on the CPA's honesty, integrity, trustworthiness, good moral character, or fitness as a CPA in other respects;
- (2) stating or implying an ability to improperly influence a governmental agency or official;
- (3) failing to comply with any order issued by the Board; or
- (4) failing to fulfill the terms of a peer review engagement contract.

#### **21 NCAC 08N .0204      DISCIPLINE BY FEDERAL AND STATE AUTHORITIES**

(a) Violations of Other Authorities' Laws or Rules. A CPA shall not act in a way that would cause said CPA to be disciplined by federal or state agencies or boards for violations of laws or rules on ethics. CPAs who engage in activities regulated by other federal or state authorities (including but not limited to the following agencies: IRS, Department of Revenue, SEC, State Bar, North Carolina Secretary of State, PCAOB, NASD, Department of Insurance, GAO, HUD, State Auditor, State Treasurer, or Local Government Commission) must comply with all such authorities' ethics laws and rules.

(b) Prima Facie Evidence. A conviction or final finding of unethical conduct by a competent authority is prima facie evidence of a violation of this Rule.

(c) Notice to the Board Required. A CPA shall notify the Board in writing within 30 days of any conviction or finding against him or her of unlawful conduct by any federal or state court or regulatory authority.

#### **21 NCAC 08N .0205      CONFIDENTIALITY**

(a) Nondisclosure. A CPA shall not disclose any confidential information obtained in the course of employment or a professional engagement except with the consent of the employer or client.

(b) Exceptions. This Rule shall not be construed:

- (1) to relieve a CPA of any report obligations pertaining to Section .0400 of this Subchapter; or
- (2) to affect in any way the CPA's compliance with a validly issued subpoena or summons enforceable by this Board or by order of a court; or
- (3) to preclude the CPA from responding to any inquiry made by the AICPA Ethics Division or Trial Board, by a duly constituted investigative or disciplinary body of a state CPA society, or under state statutes; or

- (4) to preclude the disclosure of confidential client information necessary for the peer review process or for any quality review program; or
- (5) to preclude the CPA from assisting the Board in enforcing the accountancy statutes and rules; or
- (6) to affect a CPA's disclosure of confidential information to state or federal authorities when the CPA concludes in good faith based upon professional judgment that a crime is being or is likely to be committed; or
- (7) to affect a CPA's disclosure of confidential information when such disclosure is required by state or federal laws or regulations.

#### **21 NCAC 08N .0206 COOPERATION WITH BOARD INQUIRY**

A CPA shall fully cooperate with the Board in connection with any inquiry it shall make. Full cooperation includes fully responding in a timely manner to all inquiries of the Board or representatives of the Board and claiming Board correspondence from the U.S. Postal Service.

#### **21 NCAC 08N .0207 VIOLATION OF TAX LAWS**

A CPA shall not knowingly violate any state or federal tax laws in handling the CPA's personal business affairs, or the business affairs of an employer or client, or the business affairs of any company owned by the CPA.

#### **21 NCAC 08N .0208 REPORTING CONVICTIONS, JUDGMENTS, AND DISCIPLINARY ACTIONS**

- (a) Criminal Actions. A CPA shall notify the Board within 30 days of any conviction or finding of guilt of, pleading of *nolo contendere*, or receiving a prayer for judgment continued to any criminal offense.
- (b) Civil Actions. A CPA shall notify the Board within 30 days of any judgment or settlement in a civil suit, bankruptcy action, administrative proceeding, or binding arbitration, the basis of which is grounded upon an allegation of professional negligence, gross negligence, dishonesty, fraud, misrepresentation, incompetence, or violation of any federal or state tax law and which was brought against either the CPA or a North Carolina office of a CPA firm of which the CPA was a managing partner.

#### **21 NCAC 08N .0209 ACCOUNTING PRINCIPLES**

- (a) Generally Accepted Accounting Principles. A CPA shall not express an opinion that financial statements are presented in conformity with generally accepted accounting principles if such statements contain any departure from an accounting principle which has a material effect on the statements taken as a whole, unless the CPA can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading.
- (b) Statements of Financial Accounting Standards. The Statements of Financial Accounting Standards, together with those Accounting Research Bulletins and Accounting Principles Board Opinions which are not superseded by action of the FASB, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered generally accepted accounting principles for the purposes of Paragraph (a) of this Rule.
- (c) Departures. In such cases the CPA's report must describe the departure, the approximate effects thereof, if practicable, and the reasons why compliance with the principle would result in a misleading statement.
- (d) Copies of Standards. Copies of the Statements of Financial Accounting Standards may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the FASB, High Ridge Park, Post Office Box 3821, Stamford, CT 06905-0821 as part of the "FASB Accounting Standards." They are available at cost, which is approximately thirty-four dollars (\$34.00) in paperback form or three hundred eighty-three dollars (\$383.00) in looseleaf subscription form.

#### **21 NCAC 08N .0210 FORECASTS**

- (a) Forecast of Future Transactions. A CPA shall not permit the CPA's name to be used in conjunction with any forecast of future transactions in a manner which may lead to the belief that the CPA vouches for the achievability of the forecast.
- (b) Applicable Standards. A CPA shall not render services associated with prospective financial statements unless the CPA has complied with the standards for accountants' services on prospective financial information.
- (c) Statements on Standards. The Statements on Standards for Accountants' Services on Prospective Financial Information issued by the AICPA, including subsequent amendments and editions, are adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for services on prospective financial information for the purposes of Paragraph (b) of this Rule.

(d) Departures. Departures from the statements listed in Paragraph (c) of this Rule must be justified by those who do not follow them as set out in the statements.

(e) Copies of Standards. Copies of the Statements on Standards for Accountants' Services on Prospective Financial Information may be inspected in the offices of the Board as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 1211 Avenue of the Americas, New York, NY 10036 as part of the "AICPA Professional Standards." They are available at cost, which is approximately twenty-eight dollars (\$28.00) in paperback form or two hundred dollars (\$200.00) in looseleaf subscription form.

#### **21 NCAC 08N .0211 RESPONSIBILITIES IN TAX PRACTICE**

(a) Standards for Tax Services. A CPA shall not render services in the area of taxation unless the CPA has complied with the standards for tax services.

(b) Statements on Standards for Tax Services. The Statements on Standards for Tax Services issued by the AICPA, including subsequent amendments and editions, are hereby incorporated by reference, as provided by G.S. 150B-21.6, and shall be considered as the standards for tax services for the purposes of Paragraph (a) of this Rule.

(c) Departures. Departures from the statements listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the standards.

(d) Copies of Standards. Copies of the Statements on Standards for Tax Services may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 1211 Avenue of the Americas, New York, NY 10036 as part of the "AICPA Professional Standards." They are available at cost, which is approximately twenty-eight dollars (\$28.00) in paperback form or two hundred dollars (\$200.00) in looseleaf subscription form.

#### **21 NCAC 08N .0212 COMPETENCE**

A CPA shall perform professional services competently and shall:

- (1) undertake only those engagements which the CPA or CPA's firm can reasonably expect to complete with professional competence;
- (2) exercise due professional care in the performance of an engagement;
- (3) adequately plan and supervise an engagement; and
- (4) obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to an engagement.

#### **21 NCAC 08N .0213 OTHER RULES**

A CPA shall not willfully violate any other rule in this Chapter nor any other provision of the Accountancy Statutes, the Professional Corporation Act, the Partnership Act, the Taxation Act, or the North Carolina Limited Liability Company Act.

#### **21 NCAC 08N .0214 OUTSOURCING TO THIRD-PARTY SERVICE PROVIDERS**

(a) A CPA shall provide a written disclosure to the client that he or she is using a third-party provider to assist the CPA in providing any professional services to the client.

(b) A CPA shall provide annual disclosure in a written statement of the services to be rendered by the third-party provider as well as the third-party provider's name, address, and phone number. The written statement shall be dated, signed by both the CPA and client in advance of the outsourcing, and a copy provided to the client.

(c) A CPA outsourcing professional services to a third-party provider is responsible for insuring a third-party provider is in compliance with all rules of Professional of Conduct and Ethics in 21 NCAC 08N.

### **SECTION .0300 - RULES APPLICABLE TO ALL CPAS WHO USE THE CPA TITLE IN OFFERING OR RENDERING PRODUCTS OR SERVICES TO CLIENTS**

#### **21 NCAC 08N .0301 PROFESSIONAL JUDGMENT**

(a) Professional Judgment. A CPA shall not subordinate the CPA's professional judgment to non-CPAs.

(b) Tax Practice. In tax practice, the CPA may resolve doubt in favor of the CPA's client as long as there is reasonable support for the CPA's position.

## **21 NCAC 08N .0302 FORMS OF PRACTICE**

(a) Authorized Forms of Practice. A CPA who uses CPA in or with the name of the business or offers or renders attest or assurance services in the public practice of accountancy to clients shall do so only through a registered sole proprietorship, partnership, Professional Corporation, Professional Limited Liability Company, or Registered Limited Liability Partnership.

(b) Authorized Ownership. A CPA firm may have an ownership of up to 49 percent by non-CPAs. A CPA firm shall have ownership of at least 51 percent and be controlled in law and fact by holders of valid CPA certificates who have the unrestricted privilege to use the CPA title and to practice public accountancy in a jurisdiction and at least one of whom shall be licensed by this Board.

(c) CPA Firm Registration Required. A CPA shall not offer or render professional services through a CPA firm which is in violation of the registration requirements of 21 NCAC 08J .0108, 08J .0110, or 08M .0101.

(d) Supervision of CPA Firms. Every North Carolina office of a CPA firm registered in North Carolina shall be actively and locally supervised by a designated actively licensed North Carolina CPA whose primary responsibility and a corresponding amount of time shall be work performed in that office.

(e) CPA Firm Requirements for CPA Ownership. A CPA firm and its designated supervising CPA shall be held accountable for the following in regard to a CPA owner:

- (1) A CPA owner shall be a natural person or a general partnership or a limited liability partnership directly owned by natural persons.
- (2) A CPA owner shall actively participate in the business of the CPA firm.
- (3) A CPA owner who, prior to January 1, 2006, is not actively participating in the CPA firm may continue as an owner until such time as his or her ownership is terminated.

(f) CPA Firm Requirements for Non-CPA Ownership. A CPA firm and its designated supervising CPA partner shall be held accountable for the following in regard to a non-CPA owner:

- (1) a non-CPA owner shall be a natural person or a general partnership or limited liability partnership directly owned by natural persons;
- (2) a non-CPA owner shall actively participate in the business of the firm or an affiliated entity as his or her principal occupation;
- (3) a non-CPA owner shall comply with all applicable accountancy statutes and the administrative code;
- (4) a non-CPA owner shall be of good moral character and shall be dismissed and disqualified from ownership for any conduct that, if committed by a licensee, would result in a discipline pursuant to G.S. 93-12(9);
- (5) a non-CPA owner shall report his or her name, home address, phone number, social security number and Federal Tax ID number (if any) on the CPA firm's registration; and
- (6) a non-CPA owner's name may not be used in the name of the CPA firm or held out to clients or the public that implies the non-CPA owner is a CPA.

## **21 NCAC 08N .0303 OBJECTIVITY AND CONFLICTS OF INTEREST**

(a) Personal Financial Interest in Advice. When offering or rendering accounting or related financial, tax, or management advice, a CPA shall be objective and shall not place the CPA's own financial interests nor the financial interests of a third party ahead of the legitimate financial interests of the CPA's client or the public in any context in which a client or the public can reasonably expect objectivity from one using the CPA title.

(b) Expectation of Objectivity Presumed. If the CPA uses the CPA title in any way to obtain or maintain a client relationship, the Board will presume the reasonable expectation of objectivity.

(c) Acceptance of a Commission or Referral Fee. A CPA shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when the CPA also performs for that client:

- (1) an audit or review of a financial statement; or
- (2) a compilation of a financial statement when the CPA expects, or reasonably might expect, that a third party will use the financial statement and the CPA's compilation report does not disclose a lack of independence; or
- (3) an examination of prospective financial information.

This prohibition applies during the period in which the CPA is engaged to perform any of the services listed in Subparagraph (c)(2) of this Rule and the period covered by any historical financial statements involved in such listed services.

(d) Acceptance of a Contingent Fee.

- (1) The offering or rendering of professional services for, or the receipt of, a contingent fee by a CPA is not prohibited except for engaging to render or rendering by a CPA:
  - (A) of professional services for any person for whom the CPA also performs attest services, during the period of the attest services engagement and the period covered by any historical financial statements involved in such attest services; and
  - (B) for the preparation of original or amended tax returns or claims for tax refunds.
- (2) Fees are not regarded as being contingent if fixed by courts or other public authorities or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.

(e) A CPA shall communicate in advance to a client the scope of services or products to be rendered or referred for which the CPA will receive a commission, referral, or contingent fee. A CPA shall provide disclosure in a written statement within ten business days of the service or product to be rendered or referred with the commission, referral, or contingent fee to be charged or received by the CPA.

#### **21 NCAC 08N .0304 CONSULTING SERVICES STANDARDS**

(a) Standards for Consulting Services. A CPA shall not render consulting services unless the CPA has complied with the standards for consulting services.

(b) Statements on Standards for Consulting Services. The Statements on Standards for Consulting Services (including the definition of such services) issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for consulting services for the purposes of Paragraph (a) of this Rule.

(c) Departures. Departures from the statements listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the statements.

(d) Copies of Statements. Copies of the Statements on Standards for Consulting Services may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 1211 Avenue of the Americas, New York, NY 10036 as part of the "AICPA Professional Standards." They are available at cost, which is approximately ten dollars (\$10.00) in paperback form or two hundred dollars (\$200.00) in looseleaf subscription form.

#### **21 NCAC 08N .0305 RETENTION OF CLIENT RECORDS**

(a) Return upon Demand. A CPA must return client records in his or her possession to the client after a demand is made for their return. The records must be returned immediately upon demand unless circumstances make some delay reasonable in order to retrieve a closed file or to extract the CPA's work papers described in Paragraph (f) of this Rule. If the records cannot be returned immediately upon demand, the CPA shall immediately notify the client of the date the records will be returned. Nothing in this Rule shall be interpreted to require a CPA to pay delivery costs when the records are returned to the client.

(b) Who may Demand Client Records. If the client is a partnership, records shall be returned upon request to any of its general partners. If the client is a limited partnership or a registered limited liability partnership, records shall be returned upon request to its general partner(s) and the managing partner or his or her designated individual respectively. If the client is a corporation, records shall be returned upon request to its president. If the client is a limited liability company, records shall be returned upon request to the manager. Joint records shall be returned upon request to any party.

(c) Return of Original Records. If the engagement is terminated prior to completion or the CPA's work product has neither been received nor paid for by the client, the CPA is only required to return those records originally given to the CPA by the client.

(d) Retention to Force Payment. A CPA shall not retain a client's records in order to force payment of any kind.

(e) Work Papers Included in Client Records. Work papers are usually the CPA's property and need not be surrendered to the client. However, in some instances work papers will contain data which should properly be reflected in the client's books and records but for convenience have not been duplicated therein with the result that the client's records are incomplete. In such instances, the portion of the work papers containing such data



constitutes part of the client's records, and copies shall be given to the client along with the rest of the client's records. Work papers considered part of the client's records include but are not limited to:

- (1) Worksheets in lieu of original entry (e.g., listings and distributions of cash receipts or cash disbursements on columnar work paper);
  - (2) Worksheets in lieu of general ledger or subsidiary ledgers, such as accounts receivable, job cost and equipment ledgers, or similar types of depreciation records;
  - (3) All adjusting and closing journal entries and supporting details not fully set forth in the journal entry; and
  - (4) Consolidating or combining journal entries and worksheets and supporting detail used in arriving at final figures incorporated in an end product such as financial statements or tax returns.
- (f) Work Papers Belonging to the CPA. Work papers developed by the CPA incident to the performance of an engagement which do not result in changes to the client's records, or are not in themselves part of the records ordinarily maintained by such clients, are solely the CPA's work papers and are not the property of the client. For example, the CPA may make extensive analyses of inventory or other accounts as part of the selective audit procedures. These analyses are considered to be a part of the CPA's work papers, even if the analyses have been prepared by client personnel at the request of the CPA. Only to the extent these analyses result in changes to the client's records would the CPA be required to furnish the details from the work papers in support of the journal entries recording the changes, unless the journal entries themselves contain all necessary details.
- (g) Reasonable Fees for Copies. Nothing in this Rule shall be construed to require the CPA to furnish a client with copies of the client's records already in the client's possession. However, if the client asserts that such records have been lost, or are otherwise not in the client's possession, the CPA shall furnish copies of the records and may charge a reasonable fee.
- (h) Retention of Work Product and Work Papers. A CPA shall ensure that the work product and the work papers created in the performance of an engagement for a client are retained for a minimum of five years after the date of issuance of the work product unless the CPA is required by law to retain such records for a longer period.

## **21 NCAC 08N .0306      ADVERTISING OR OTHER FORMS OF SOLICITATION**

- (a) Deceptive Advertising. A CPA shall not seek to obtain clients by advertising or using other forms of solicitation in a manner that is deceptive.
- (b) Specialty Designations. A CPA may advertise the nature of services provided to clients but the CPA shall not advertise or indicate a specialty designation or other title unless the CPA has met the requirements of the granting organization for the separate title or specialty designation and the individual is currently on active status and in good standing with the granting organization for the separate title or specialty designation.
- (c) The CPA firm shall offer to perform or advertise professional services only in the exact name of the CPA firm as registered with the Board.
- (d) Any CPA or CPA firm offering to or performing professional services via the internet shall include the following information on the internet:
- (1) CPA business or CPA firm name;
  - (2) principal place of business;
  - (3) business phone; and
  - (4) North Carolina certificate number and North Carolina as state of certification.
- (e) The use of the phrase "certified public accountant(s)" or "CPA(s)" in the name of any business entity on letterhead, reports, business cards, brochures, office signs, telephone directories, or any other advertisements or forms or solicitation is prohibited except for registered CPA firms.

## **21 NCAC 08N .0307      CPA FIRM NAMES**

- (a) Deceptive Names Prohibited. A CPA or CPA firm shall not trade upon the CPA title through use of any name that would have the capacity or tendency to deceive. The name of one or more former members of the CPA firm, as defined in 21 NCAC 08A .0301, may be included in the CPA firm name. The name of a non-CPA owner in a CPA firm name is prohibited.
- (b) Style of Practice. It is considered misleading if a CPA firm practices under a name or style which would tend to imply the existence of a partnership or registered limited liability partnership or a professional corporation or professional limited liability company of more than one CPA shareholder or CPA member or an association when in fact there is no partnership nor is there more than one CPA shareholder or CPA member of a CPA firm. For

example, no CPA firm having just one CPA owner may have as a part of its name the words "associates," "group," or "company" or their abbreviations. It is also considered misleading if a CPA renders non-attest professional services through a non-CPA firm using a name that implies any non-licensees are CPAs.

(c) Any CPA firm that has continuously used an assumed name approved by the Board prior to April 1, 1999, may continue to use the assumed name, so long as the CPA firm is owned only by the individual practitioner, partners, or shareholders who obtained Board approval for the assumed name. A CPA firm (or a successor firm by sale, merger, or operation of law) may continue to use the surname of a retired or deceased partner or shareholder in the CPA firm's name so long as that use is not deceptive.

#### **21 NCAC 08N .0308 VALUATION SERVICES STANDARDS**

(a) Standards for Valuation Services. A CPA shall not render valuation services of a business, a business ownership interest, security, or intangible asset unless the CPA has complied with the standards for valuation services.

(b) Statements on Standards for Valuation Services. The Statements on Standards for Valuation Services (including the definition of such services) issued by the AICPA, including amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for valuation services for the purposes of Paragraph (a) of this Rule.

(c) Departures. Departures from the standards listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the statements.

(d) Copies of Statements. Copies of the statements on standards for valuation services may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 1211 Avenue of the Americas, New York, NY 10036 as part of the "AICPA Professional Standards." They are available at cost, which is approximately ten dollars (\$10.00) in paperback form or two hundred dollars (\$200.00) in loose leaf subscription form.

### **SECTION .0400 - RULES APPLICABLE TO CPAs PERFORMING ATTEST SERVICES**

#### **21 NCAC 08N .0401 PUBLIC RELIANCE**

The rules in this Section apply to any CPA who engages in the attest or assurance services as defined in 21 NCAC 08A .0301(b). CPAs who engage in such services are also subject to the Peer Review requirements of Subchapter 08M.

#### **21 NCAC 08N .0402 INDEPENDENCE**

(a) A CPA, or the CPA's firm, who is performing an engagement in which the CPA, or the CPA's firm, will issue a report on financial statements of any client (other than a report in which lack of independence is disclosed) must be independent with respect to the client in fact and appearance.

(b) Independence shall be considered to be impaired if, during the period of the professional engagement, a covered person:

- (1) had or was committed to acquire any direct or material indirect financial interest in the client;
- (2) was a trustee of any trust or executor or administrator of any estate that had or was committed to acquire any direct or material indirect financial interest in the client; and
  - (A) The covered person had the authority to make investment decisions for the trust or estate; or
  - (B) The trust or estate owned more than 10 percent of the client's outstanding equity securities or other ownership interests or the value of the trust's or estate's holdings in the client exceeded 10 percent of the total assets of the trust or estate;
- (3) had a joint or closely held investment that was material to the covered person; or
- (4) had any loan to or from the client or any officer or director of the client, or any individual owning 10 percent or more of the client's outstanding equity securities or other ownership interests.

(c) Independence shall be considered to be impaired if during the period of the professional engagement, a shareholder, a member, a partner or professional employee of the firm, his or her immediate family, or any group of such persons acting together owned more than five percent of a client's outstanding equity securities or other ownership interests.

(d) Independence shall be considered to be impaired if, during the period covered by the financial statements, or during the period of the professional engagement, a shareholder, a member, a partner or professional employee of the firm was simultaneously a:

- (1) Director, officer, employee, or in any capacity equivalent to that of a member of management of the client;
- (2) Promoter, underwriter, or voting trustee of the client; or
- (3) Trustee for any pension or profit-sharing trust of the client.

(e) "Covered person" is:

- (1) A person on the attest engagement team;
- (2) A person in a position to influence the attest engagement;
- (3) A partner or manager who provides nonattest services to the attest client beginning once he or she provides 10 hours of nonattest services to the client within any fiscal year and ending on the later of the date:
  - (A) the firm signs the report on the financial statements for the fiscal year during which those services were provided; or
  - (B) he or she no longer expects to provide 10 or more hours of nonattest services to the attest client on a recurring basis;
- (4) A partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement;
- (5) The firm, including the firm's employee benefit plans; or
- (6) An entity whose operating, financial, or accounting policies can be controlled (as defined by generally accepted accounting principles (GAAP) for consolidation purposes) by any of the individuals or entities described in Paragraphs (a) through (e) of this Rule or by two or more such individuals or entities if they act together;

(f) The impairments of independence listed in this Rule are not intended to be all-inclusive.

#### **21 NCAC 08N .0403 AUDITING STANDARDS**

(a) Standards for Auditing Services. A CPA shall not render auditing services unless the CPA has complied with the applicable generally accepted auditing standards.

(b) Statements on Auditing Standards. The Statements on Auditing Standards issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered generally accepted auditing standards for the purposes of Paragraph (a) of this Rule.

(c) Departures. Departures from the statements listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the statements.

(d) Copies of Statements. Copies of the Statements on Auditing Standards may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 1211 Avenue of the Americas, New York, NY 10036 as part of the "AICPA Professional Standards." They are available at cost, which is approximately twenty-eight dollars (\$28.00) in paperback form or two hundred dollars (\$200.00) in looseleaf subscription form.

#### **21 NCAC 08N .0404 ACCOUNTING AND REVIEW SERVICES STANDARDS**

(a) Standards for Accounting and Review Services. A CPA shall not render accounting and review services unless the CPA has complied with the standards for accounting and review services.

(b) Statements on Standards for Accounting and Review Services. The Statements on Standards for Accounting and Review Services issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for accounting and review services for the purposes of Paragraph (a) of this Rule.

(c) Departures. Departures from the statements listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the statements.

(d) Copies of Statements. Copies of the Statements on Standards for Accounting and Review Services may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 1211 Avenue of the Americas, New York, NY 10036 as part of the "AICPA Professional Standards." They are available at cost, which is approximately twenty-eight dollars (\$28.00) in paperback form or two hundred dollars (\$200.00) in looseleaf subscription form.

## **21 NCAC 08N .0405 GOVERNMENTAL ACCOUNTING STANDARDS**

(a) Standards for Governmental Accounting. A CPA shall not permit the CPA's name to be associated with governmental financial statements for a client unless the CPA has complied with the standards for governmental accounting.

(b) Statements on Governmental Accounting and Financial Reporting Services. The Statements on Governmental Accounting and Financial Reporting Services issued by the GASB, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for governmental accounting for the purposes of Paragraph (a) of this Rule.

(c) Departures. Departures from the statements listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the statements.

(d) Copies of Statements. Copies of the Statements on Governmental Accounting and Financial Reporting Standards, including technical bulletins and interpretations, may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the GASB, Post Office Box 9125, Dept. 285, Stamford, CT 06925. They are available at cost, which is approximately forty-seven dollars and fifty cents (\$47.50). In addition to the basic set, an updating subscription service is available for approximately sixty-five dollars (\$65.00) annually.

## **21 NCAC 08N .0406 ATTESTATION STANDARDS**

(a) Standards for Attestation Services. A CPA shall not render attestation services unless the CPA has complied with the applicable attestation standards.

(b) Statements on Standards for Attestation Engagements. The Statements on Standards for Attestation Engagements issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered attestation standards for the purposes of Paragraph (a) of this Rule.

(c) Departures. Departures from the statements listed in Paragraph (b) of this Rule must be justified by those who do not follow them as set out in the statements.

(d) Copies of Statements. Copies of the Statements on Standards for Attestation Engagements may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 1211 Avenue of the Americas, New York, NY 10036 as part of the "AICPA Professional Standards." They are available at cost, which is approximately thirty dollars (\$30.00) in paperback form or two hundred dollars (\$200.00) in looseleaf subscription form.

## **21 NCAC 08N .0407 COMPETITIVE BIDDING**

Regarding an invitation for competitive bids on attest services, it shall be discreditable for a CPA or CPA firm to knowingly offer to perform said services below cost for the purposes of injuring or destroying competition; provided, it shall not be a violation to do so in order to meet competition. Nothing herein shall be construed to prohibit competitive bidding nor establish a minimum price of any CPA service.

## **21 NCAC 08N .0408 PEER REVIEW STANDARDS**

A CPA who is engaged to perform a peer review shall not violate the rules or standards as set in Subchapter 08M of the peer review program under which the review is made or the engagement contract connected with that peer review.

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